

**West Valley Water District
Matters on Internal Control (Continued)
For the Seven Months Ended January 31, 2019**

Finding 2019-002 Lack of Segregation of Duties in the Accounting Systems (Material Weakness)

Condition:

During our audit, we noted management of the District retains the non-purchasing access right in the accounting system for an employee who used to work in the Accounting Department, but has since been transferred to the Purchasing Department (Asset Manager). We reviewed the users' access rights list, and noted the employee still has administrative access to the following modules that are outside of the purchasing function: accounting, cash receipt, accounts receivable, accounts payable.

In addition, the Executive Assistant is given the same access rights as the Purchasing Supervisor. The Executive Assistant would be able to approve purchase orders and purchase requisitions.

A serious lack of segregation of duties was noted in the accounting system. Purchasing staff have access to accounting, cash receipt, account receivable, accounts payable as well as purchasing. In addition, all vendor invoices are to be received in the Purchasing department and Purchasing department staff are responsible for obtaining department head signatures, ensure proper account coding, match up packing slips with the invoice and purchase order. The invoice packet is routed to the Accounting department where the accounts payable staff enters and processes the invoices.

We have also reviewed the assessment of the District's Finance Department performed by MV Cheng and Associates regarding the Department's administration, organizational structure, systems and finance operations, and reporting practices and concur with the findings as follows:

- Ineffective policies and procedures relating to internal controls, segregation of duties and daily functions.
- Lack of experienced leadership in the Accounting/Finance department.
- Poor and inconsistent communication within the departmental staff and management.
- Limited staff resources to support functional needs/tasks.
- Fiscal policies are not maintained in a central location. Finance and management staff could not locate key policies (e.g., capital asset management, debt and investment and risk management).
- Checks requiring two signatures are usually slow to obtain signature and mail.
- Inconsistent purchasing and contract requirement, that creates confusion amongst accounting staff.
- Lack of internal audit function, which can be very useful for the District. It helps the District accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- Purchasing forms are not consistent with policy.
- Purchasing policy is unclear and challenging to comply with. In addition, the policy is confusing on approval of purchases.
- Invoices are being sent to several locations which is difficult to track and process.
- Establishing, approving and processing of vendors and vendor invoices are challenging and not efficiently managed.
- Purchase orders are issued without an approved and executed contract.
- W-9s are not completed for all vendors timely.
- Payroll function should be in a secured location, currently payroll is in an unsecured location accessible to anyone.

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Finding 2019-003 Contract Management (Material Weakness)

Condition:

We noted the following contracts with internal control deficiencies:

Aerotek Contract

During our audit, we noted the District entered into a service agreement with Aerotek on December 13, 2018. The contract was approved by the management for an amount not to exceed \$25,000. Aerotek billed the District on a weekly basis. By January 26, 2019, Aerotek has exceeded the original contract amount of \$25,000 and the District allowed Aerotek to continue the work without a contract.

On March 13, 2019, an additional \$25,000 was approved by the Board; however, this amount still did not cover all the billings that were presented to the District.

On March 21, 2019, the District increased the Budget for an additional \$75,000 to cover this contract.

Rob Katherman Contracts

During the audit, we noted that the contracts entered into with Rob Katherman dated June 2018 and March 2019 were not signed by the District. In addition, the contract dated June 2018 does not have a “total not to exceed amount”.

For the period from May 1, 2018 to January 31, 2019, the total amount incurred and paid to Rob Katherman was \$55,394.56. However, the District paid \$22,049 to Rob Katherman without an authorized purchasing order.

Because of the lack of policies and procedures over purchasing, the District does not have sufficient monitoring and risk assessment control to prevent and detect unauthorized purchases.

Criteria:

Management is responsible for establishing sound internal controls over the procurement process and contract management.

Cause:

The District did not follow the District purchasing policy and also did not have adequate monitoring control over its contract management. A change order was not approved by the Board of Directors before the contract amount was exceeded.

Effect:

Inadequate internal control over contract management may lead to unauthorized transactions and misstatements in the financial statement.

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Finding 2019-004 Excessive Increase in Pay Rate from Internal Promotion (Significant Deficiency)

Condition:

During the walkthrough of the District's payroll process, we noted a new employee was hired as Customer Service Representative III in August 2018. The employee was internally promoted to a management position (Water Resources Manager) in November 2018. For this internal promotion, the employee received a pay rate increase of 41.48% from \$31.92 per hour (Range 32 Step 15 for Customer Service Representative III) to \$45.16 per hour (Range 52 Step 8 for Water Resources Manager).

Per the salary schedule effective October 1, 2018, the position of Water Resource Manager has a minimum annual salary of \$79,165 (\$38.06 per hour) and a maximum annual salary of \$111,405 (\$53.56 per hour).

While reviewing the file of this employee, we only found a memo signed by the General Manager as a justification of this promotion.

Criteria:

Pursuant to the District's Human Resources Policies and Practices Manual (effective April 19, 2018), Article 3 – Recruitment Process, Hiring, and Employment, Section 305 *Internal Promotion*, an employee promoted to a higher position will receive the minimum salary for the higher position or at least a 5% increase above the employee's former position, whichever is higher, provided the increase is within the range of the higher position.

Cause:

The District approved an excessive increase (41.48%) in pay rate to an employee who was promoted internally. The employee was promoted to Step 8 at the new position.

Effect:

Although the new pay rate for the internally promoted employee falls within the range prescribed by the Human Resources Policies and Practices Manual, management should be prudent in determining the step the employee should be promoted to at the new position.

Recommendation:

We recommend the District develop a promotion protocol. A promotion protocol should include the following at a minimum:

- Posting New Jobs and Vacancies
- Selection of Potential Candidates
- Interview Qualified Candidates by a Interview Panel
- Rate Candidate's Qualifications and Interview Performance
- Selection of the Finalist

By following this protocol, a basis of the promotion is justified and will reduce any resentment and challenges from other District's employees.

Management Response:

While management followed the proper protocol per the Human Resources Policies and Practices Manual, we will be more cognizant of the appearance of such promotions. Hence, management will perform the necessary steps to ensure all qualified candidates receive a fair and transparent process prior to receiving a promotion.